Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	SB0281	**Title:**	Simplify income taxation for married couples filing individually
Primary Sponsor:	Balyeat, Joe	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☑ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	($502,000)	($502,000)	($502,000)	($502,000)
Net Impact-General Fund Balance	($502,000)	($502,000)	($502,000)	($502,000)

Description of Fiscal impact:
This bill changes the formulas for calculating several deductions for married couples who file joint federal returns and separate state returns. On balance, these changes reduce Montana taxable income, and therefore, income tax revenue.

FISCAL ANALYSIS

Assumptions:
1. Montana allows taxpayers who file a joint federal return to file separate state returns. Because the starting point in calculating Montana income taxes is federal adjusted gross income, taxpayers who file separate state returns must start with federal adjusted gross income calculated as if the taxpayers filed separate federal returns unless state law specifies otherwise.
2. This bill would allow taxpayers filing separate returns to use the deductions calculated on their joint federal return for capital losses, passive and rental losses, individual retirement account contributions, and qualified education loan interest. In some cases, this changes the allocation of income between the two taxpayers. In others, it changes their combined taxable income.

3. Taxpayers who filed a joint federal return and separate state returns, claimed one of these deductions, and had different deduction amounts for their state returns were required to enter the differences on their 2005 tax returns. In some cases, the difference increased taxable income, and in others it was a decrease. Tax liability was calculated for all 2005 full year resident tax returns using income and deductions reported on their returns and with income and deductions adjusted for this bill. The adjustments reduced net tax liability by $502,000.
4. This bill would be effective beginning with tax year 2007. The change in revenue would first be seen when 2007 tax returns are filed in the spring of FY 2008. Revenue would be reduced by $502,000 per year beginning with FY 2008.
5. The estimate is based on the 2005 full year resident tax returns. It is assumed that the revenue reduction is the same in FY 2009 and subsequent years; however, it should be noted that the actual revenue reduction may exhibit some expected small variation as prior year deductions for Schedule 1 Montana adjustments to federal income are used up and current year Montana adjustments to federal income are entered.
6. Changes to income tax forms required by this bill would be made as part of the normal annual update process. This bill would not change the Department of Revenue's costs of administering the individual income tax.

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
Revenues:				
General Fund (01)	($502,000)	($502,000)	($502,000)	($502,000)
TOTAL Revenues	($502,000)	($502,000)	($502,000)	($502,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($502,000)	($502,000)	($502,000)	($502,000)

Effect on County or Other Local Revenues or Expenditures:

1. None.

Technical Notes:

1. This bill does not address one of the five cases where taxpayers must adjust their federal adjusted gross income when they file a joint federal return and separate state returns. The one case not addressed is the tuition and fee adjustment. This provision was recently extended by Congress.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*